

**Follow-Up Audit  
Sanitary Sewer Special Assessment Program**

March 2002

**City Auditor's Office  
City of Kansas City, Missouri**

March 27, 2002

Honorable Mayor and Members of the City Council:

This follow-up audit of the Sanitary Sewer Special Assessment Program was initiated by the City Auditor pursuant to Article II, Section 13 of the city charter. The follow-up audit focuses on progress made by the Public Works and Finance departments in strengthening financial oversight of the sewer special assessment fund, and identifies potential methods for funding sanitary sewer construction.

Financial oversight of the sanitary sewer special assessment fund has improved. Financing was obtained from the State Revolving Fund Program, which has a significantly lower interest rate. Money from the State Revolving Fund Program was used to refund the 1991 and 1996 general obligation bonds, resulting in a present value savings for the city of \$1.2 million. Financial condition reports are being prepared as required, and a systemic accounting error has been corrected.

Approximately 5,000 structures throughout the city are without access to the sanitary sewer system. Unsewered structures pose a health risk since bacteria, household chemicals, and other substances can be transmitted when septic systems malfunction or fail. Both the Community Infrastructure Committee and FOCUS recommended that the city's sewer system be expanded as basic infrastructure provided to all neighborhoods. The Public Works Department estimates that extending the city's sewer system would cost more than \$50 million. A \$30 million bond authority approved by voters in 1988 for sanitary sewer special assessment projects expired in November 2000. The city could use federal Community Development Block Grant (CDBG) funds to help defray the cost of sewer construction.

We sent a draft of this report to the City Manager and the directors of the Public Works and Finance departments on February 6, 2002. Their written responses are included as appendices. We appreciate the courtesy and cooperation extended to us during this project by staff of the Public Works, Finance, Water Services, and City Planning and Development departments. The audit team for this project was Douglas Jones and Nancy Hunt.

Mark Funkhouser  
City Auditor

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# Follow-up Audit: Sanitary Sewer Special Assessment Program

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## Table of Contents

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Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Legislative Authority	2
Funding	2
Program Overview	3
Protecting Public Health	5
Summary of 1996 Audit	5
Findings and Recommendations	7
Summary	7
Financial Oversight Has Been Strengthened	7
Use of State Revolving Fund Saved \$1.2 Million	8
Annual Financial Condition Reports Indicate Fund Is Solvent	8
Accounting Error Corrected	8
Additional Administrative Improvements Needed	9
Cost to Extend Sanitary Sewers to Unserved Areas Exceeds \$50 Million	10
Kansas City's Infill Sewer Needs Are Significant	10
CIC and FOCUS Recommended Extending Sanitary Sewers	13
Extending Sewers Would Cost Over \$50 Million	14
Community Development Block Grant Funds Could Be Redirected to Fund Sanitary Sewer Construction	18
Recommendations	19
Appendices	21
Appendix A: Prior Audit Recommendations	21
Appendix B: Audit Report Tracking System (ARTS) Reports	25
Appendix C: Map Development Methodology	41
Appendix D: City Manager's Response	45
Appendix E: Director of Public Works' Response	51
Appendix F: Finance Director's Response	55

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## **Follow-up Audit: Sanitary Sewer Special Assessment Program**

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### **List of Exhibits**

Exhibit 1. General Concentration of Unsewered Residential Properties in Kansas City, Missouri	12
Exhibit 2. Methods for Funding Sanitary Sewer Construction	16

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## Introduction

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### Objectives

We conducted this follow-up audit of the Public Works Department's Sanitary Sewer Special Assessment Program pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the City Auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function. Performance audits are intended to provide information to improve public accountability and facilitate decision-making.<sup>1</sup> A follow-up audit examines the actions taken in response to the problems identified and recommendations made in a previous audit. This follow-up audit was designed to answer the following questions:

- Has financial oversight of the sewer special assessment fund been strengthened?
- What are the options for funding sanitary sewer construction?

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### Scope and Methodology

We designed this follow-up audit to assess the progress made by the Public Works and Finance departments in addressing issues raised in our 1996 audit. We conducted this follow-up audit in accordance with generally accepted government auditing standards. Our methods included:

- Reviewing our prior audit work, regulations and legislation, city records, and literature related to funding capital improvements.
- Interviewing city staff and federal, state, and local officials.

No information was omitted from this report because it was deemed privileged or confidential.

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14.

## **Background**

Sanitary sewers are constructed to transport wastewater from homes and buildings to a sewage treatment plant. Sewers help protect the public from disease that can spread from water-borne bacteria. The purpose of the Sanitary Sewer Special Assessment Program is to design and construct sewers in areas of the city that, although developed, are not served by sewers. This is also known as infill sewer construction. Citizens in areas of the city not served by sewers rely on septic systems and community sewers to handle wastewater from their homes.

### **Legislative Authority**

The city charter contains a number of operational mandates that affect the Sanitary Sewer Special Assessment Program. The charter authorizes the city to make and finance public improvements. It grants the Director of Public Works the authority to determine whether a proposed public improvement is in the public interest and whether the project will proceed. The charter provides for the establishment of public sewers, sewer districts, and joint sewer districts. The charter also establishes how sewer special assessments can be apportioned and billed, the maximum number of payments, interest rates, and how delinquent accounts may be pursued.

The city code establishes the Public Works Department's responsibility for planning and constructing sanitary sewers financed by special assessments, and allows the addition of 25 percent to construction costs to cover engineering and administrative overhead. The city code establishes the Water Services Department's responsibility for planning and constructing sewers financed by revenue sources other than special assessments and for maintaining and operating the city's sewerage system. The city code also establishes the sewer special assessment fund, and requires the Director of Finance to review the financial condition of special assessment funds annually and estimate a reserve amount to cover uncollectible special tax bills.

### **Funding**

On November 8, 1988, voters approved a \$30 million sewer special assessment general obligation bond issue. Approximately \$17.1 million in bonds were issued against this authorization before it expired in

November 2000.<sup>2</sup> In April 1997, the city issued bonds through the State Revolving Fund Program (SRF) to refund about \$5.5 million in sewer special assessment general obligation bonds issued in 1991 and 1996. At the beginning of fiscal year 2002, approximately \$3.2 million remained from these bond proceeds for sanitary sewer construction. In addition to the remaining bond proceeds, Water Services agreed to provide up to \$1 million per year in additional funding from sewer revenue bonds to subsidize assessment costs.

The fiscal year 2002 capital improvements plan also budgeted \$1 million for the sanitary sewer program. The transmittal letter noted that the plan begins addressing the “basic bundle” of neighborhood infrastructure recommended by the CIC report and FOCUS plan by providing funds for sanitary sewers construction. Public Works submitted nineteen approved sanitary sewer projects to the Public Improvements Advisory Committee<sup>3</sup> (PIAC) for consideration in the fiscal year 2003 capital improvements plan. The submitted budget for fiscal year 2003 recommends \$68,000 in funding for two sanitary sewer projects and \$500,000 for the sanitary sewer program.

### **Program Overview**

The Public Works Department is responsible for designing and constructing approved sewer district projects. Public Works staff estimate that developing and completing a typical sanitary sewer project takes about three years.

Projects are initiated either by a call from a property owner interested in sanitary sewer service or a complaint regarding a malfunctioning septic system. Public Works staff conduct initial inquiries to gauge property owner interest and public health risk. If enough property owners are interested or there is a health concern, staff prepare an ordinance describing the sewer special assessment district for City Council approval.

Once the sewer special assessment district is established, Public Works staff complete an initial investigation of the area to develop preliminary maps with a layout of the system and an estimate of the assessment to property owners. Information developed by staff about the project and properties is entered into a project assessment record in the city’s

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<sup>2</sup> Article IV, Sec. 101 of the City Charter authorizes the city to issue bonds during a period of 12 years following voter approval.

<sup>3</sup> PIAC consists of 13 members appointed by the Mayor and City Council. PIAC's primary function is to solicit citizen input through public hearings and make recommendations to the Mayor and City Council regarding the capital improvement budget.

permitting system (KIVA). After the preliminary plans and estimates are developed, staff conducts a public hearing for affected property owners. At the hearing, staff provide information about the project and receive public input to determine whether a majority of the property owners are in favor of the project or oppose it. After the hearing, staff discuss the project and public comments with the Director of Public Works for his determination of whether to proceed with the project. If a majority of the property owners approve or there is a known health problem, the project proceeds to the design and construction phases.

The design and construction phases include project design, environmental and archeological surveys, acquisition of easements, reviews and approvals by the Missouri Department of Natural Resources (MDNR), contract development and award, and construction. Sanitary sewers constructed by Public Works become part of the city's sewer system with the Water Services Department responsible for their maintenance and operation.

After construction is completed, Public Works staff determine project costs, verify property ownership, calculate each property owner's assessment, and forward the project assessment record to the Finance Department's Accounts Division through the KIVA system. Accounts Division staff verify and certify the information on the project assessment record, enter the normal and delinquent interest rates into the project assessment record, and forward it to the Finance Department's Treasury Division through the KIVA system.

Treasury Division staff finalize the tax roll and project assessment record and print out and submit the tax roll to Public Works for review and certification. After approval of the tax roll, Treasury staff prepare and send special assessment notices and tax bills to property owners. Property owners have the option of paying the entire special assessment within 60 days or making up to 20 annual installment payments with interest. Billings for annual installment payments begin the following fiscal year and are due June 30<sup>th</sup> of each year.<sup>4</sup> If any installment payment is not paid when due, the remaining unpaid balance of the account immediately becomes due. Special assessment payments are used to repay the bonds.

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<sup>4</sup> If a project is billed for full payment after March 31, the first installment payment is not due until June 30 of the following year. Because of the initial 60-day period to pay in full, these assessments miss the June 1 annual billing cycle and there can be a 15-month lag between assessment and the first payment.



## **Protecting Public Health**

Failing or malfunctioning septic systems pose a risk to the public's health. Untreated sewage that surfaces, is deposited on property, or enters waterways, contains bacteria and viral agents that can cause illness or disease. The primary risk to public health occurs at the point where raw sewage is seeping out. A secondary risk is person-to-person transmission of an illness.

In June 2000, the Environmental Protection Agency (EPA) reported that septic systems were the second most frequently cited source, by states, as a potential threat to ground water quality.<sup>5</sup> An earlier EPA report on water quality noted that typical contaminants from household septic systems include bacteria, nitrates, viruses, phosphates, and other chemicals that might originate from household cleaners.

## **Summary of 1996 Audit**

Our 1996 audit focused on the sewer program's financial condition. We reported that program revenues were not adequate to cover expenses; the program was not fully using the SRF with its lower interest costs to finance construction; collection efforts and tracking of delinquent accounts were lacking; financial reporting was not timely; and there was a \$2.2 million error in the sewer special assessment debt service fund.

We made 12 recommendations directed towards improving the program's financial condition, reporting, and billing practices. (See Appendix A.) Audit Report Tracking System reports submitted by management are included as Appendix B.

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<sup>5</sup> *National Water Quality Inventory: 1998 Report to Congress*, Environmental Protection Agency, June 2000, p. 164. Leaking underground storage tanks were the most frequently cited potential threat to ground water quality.



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## **Findings and Recommendations**

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### **Summary**

Financial oversight of the sanitary sewer special assessment fund has improved. The program used the State Revolving Fund, which has lower interest costs; financial condition reports are prepared as required; and a systemic accounting error has been corrected. Improved monitoring of delinquent accounts could further strengthen oversight. In addition, the Water Services Department has committed to provide up to \$1 million annually for subsidizing sewer construction costs. The subsidy agreement between the Water Services and Public Works departments has been interpreted differently by staff in both departments and should be clarified.

Approximately 5,000 structures in the city are not connected to the sanitary sewer system. Although some of these structures are in the more rural areas of the city, unsewered structures exist in every council district. The Community Infrastructure Committee report and FOCUS plan consider sanitary sewers to be basic neighborhood infrastructure. Cost estimates for extending the city's sanitary sewer system to unsewered areas exceed \$50 million. There are a number of additional methods to fund sanitary sewer construction that should be evaluated, including the use of federal Community Development Block Grants to help pay for extending the system.

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### **Financial Oversight Has Been Strengthened**

Financial oversight of the sanitary sewer special assessment fund has improved. The program used the State Revolving Fund, which has lower interest costs; financial condition reports are prepared as required; and a systemic accounting error has been corrected. Monitoring and reporting on collections and delinquent accounts could be further improved to assist the Finance Department with pursuing collections and providing better information to management.

### **Use of State Revolving Fund Saved \$1.2 Million**

In response to a recommendation in our prior audit, the Public Works and Finance departments obtained financing for sanitary sewer projects through the State Revolving Fund (SRF). SRF bond proceeds were used to refund outstanding portions of general obligation sewer special assessment bonds issued in 1991 and 1996. This created a present value savings for the city of approximately \$1.2 million. The SRF program uses federal funds from the EPA and state funds to subsidize interest costs. Because of this subsidy, the SRF bonds issued in April 1997 had an effective interest rate of 1.96 percent. This rate was significantly lower than the 5.43 percent market rate and the 6.47 percent and 5.23 percent rates on the two general obligation bond issues that were refunded.

### **Annual Financial Condition Reports Indicate Fund Is Solvent**

The Finance Department prepares annual financial condition reports for the sanitary sewer special assessment fund as required by the city code.<sup>6</sup> The financial condition reports from the last three fiscal years and the fiscal year commencing May 1, 2002, indicate that the fund is solvent and able to meet current debt service obligations. The prior audit found that the former Director of Finance was not preparing annual reports on the financial condition of the special assessment fund and its ability to meet upcoming debt service obligations as required by the city code.

### **Accounting Error Corrected**

The Finance Department's current practice is to bring all correcting entries made to the Comprehensive Annual Financial Report (CAFR) over to the city's computer accounting system. The prior audit found a \$2.2 million error in the sewer special assessment fund between the CAFR and computer accounting system resulting from correcting entries made to the CAFR not being carried over to the computer accounting system. This was a systemic problem with all correcting entries, rather than a problem affecting just the sewer special assessment fund. The accounting error could have resulted in the city issuing more sewer special assessment debt than could have been repaid by the revenue accumulated in the debt service fund.

Accuracy is important because city departments rely upon information in the computer accounting system to make financial decisions. Finance Department staff now use a report showing differences between the year-

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<sup>6</sup> Code of Ordinances, Kansas City, Missouri, Sec. 2-1713 (b).

end balance and the following month's trial balance to analyze and determine the nature of variances and ensure the correct entries are made in the accounting system.

### **Additional Administrative Improvements Needed**

Although the Finance Department has made significant progress in its financial oversight of the sanitary sewer special assessment fund, several areas could be strengthened further. Additional reporting would enable the department to monitor and report on collections and delinquent accounts. In addition, a 1998 agreement between the Water Services and Public Works departments regarding subsidies for the program has been interpreted differently by staff in the two departments and should be clarified.

**Oversight of delinquent accounts should be improved.** In response to the prior audit, a monthly delinquent account report was developed for the Finance Department from information in the city's mainframe computer. In 1999, special assessment data was moved to the KIVA system and the monthly delinquent account report was no longer available. The lack of this report makes it more difficult for Finance to identify and pursue delinquent accounts.

The Finance Department has had trouble developing reports from the KIVA system. The department has a report for collections, but a collection rate report has not been developed and an aging report, which would help in pursuing collections needs further development. Finance Department staff analyzing the sewer special assessment fund's financial condition have to develop a rough estimate of the collection rate using data and other reports from the KIVA system related to collections and making assumptions about collections.

Delinquent payments impede the program's ability to repay the bonds, and reduce the amount of funds available for construction. Based on KIVA system data, the Finance Department sent out 950 sewer special assessment bills totaling almost \$2 million on June 1, 2001. Almost \$1.6 million of the billings were for delinquent accounts from prior years. Pursuing delinquent accounts has been hampered in recent years because of a lack of reports.

Improved reports from the KIVA system would help the Finance Department pursue collection of past due sewer special assessment tax bills. The information in KIVA could also be used to provide more accurate information to help staff manage and report on collections and delinquencies as well as analyze the condition of the fund. The Director of Finance should work with the Director of Information Technology to

develop reports that would enhance the Finance Department's ability to monitor and report on sewer special assessment collections and delinquent accounts.

**The City Manager should clarify how Water Services funds will be used.** Staff in the Public Works and Water Services departments have different interpretations of language contained in a July 1998 agreement to use proceeds from sewer revenue bonds to subsidize sanitary sewer construction costs. The differences relate to the proportion of funds, and when and how these funds will be used. The agreement signed by the directors of Public Works and Water Services is brief and commits Water Services to provide up to \$1 million per budget year for sanitary sewer assessment projects. There are few additional details outlining how the funding from Water Services will be used or obtained by Public Works.

The lack of operational details related to the agreement has created confusion and different interpretations among the staff in the two departments about the use and availability of funds. The City Manager should clarify the sewer special assessment funding agreement between Public Works and Water Services and formalize a plan for use of the funding.

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## **Cost to Extend Sanitary Sewers to Unserved Areas Exceeds \$50 Million**

Throughout Kansas City, approximately 5,000 structures are not connected to the sanitary sewer system. Although some of these structures are in less developed areas of the city, unsewered structures exist in every council district. The Community Infrastructure Committee report and FOCUS plan consider sanitary sewers to be basic neighborhood infrastructure. Public Works staff estimate that extending the city's sanitary sewer system to these areas would cost in excess of \$50 million. Several methods exist for paying for sewer construction, including using the federal Community Development Block Grant.

### **Kansas City's Infill Sewer Needs Are Significant**

The approximately 5,000 structures that do not currently have sanitary sewers are located throughout Kansas City. Extending sewers to these properties would, in many cases, be expensive due to the topography and geology of the land, difficulty in obtaining easements, the distance from the nearest sewer, and property owner opposition.

**Infill sewer needs are a citywide problem.** In response to a recommendation in our prior audit, the Public Works Department

developed a long-range plan for extending sewers.<sup>7</sup> The plan estimated the number of “unsewered” structures using data prepared by the Water Services Department from water accounts without a corresponding sewer account. The plan also estimated the cost of extending the sewer system to these unsewered areas.

In 2001, Public Works staff estimated that about 5,000 structures in Kansas City, Missouri, are not connected to sewers. These structures, which are located in all areas of the city, represent about 3 percent of the structures in the city. (See Exhibit 1. The method used to develop the map is described in Appendix C.)

**Extending sanitary sewers to the remaining areas is difficult.**

According to the long-range plan and Public Works Department staff, extending sanitary sewers to many of the remaining unsewered areas would be difficult or expensive. Factors contributing to the cost include:

- geological problems, such as shallow soil conditions on top of deep rock formations;
- the need for pumps caused by the slope of the land affecting gravity flow;
- long distances (up to ½ mile) from existing trunk sewer lines;
- difficulty in obtaining easements;
- high potential assessments for owners of large or vacant lots, or farmland bordered or surrounded by developed, but unsewered areas;
- lower property values of the structures;
- income levels of the affected property owners;
- opposition from affected property owners.

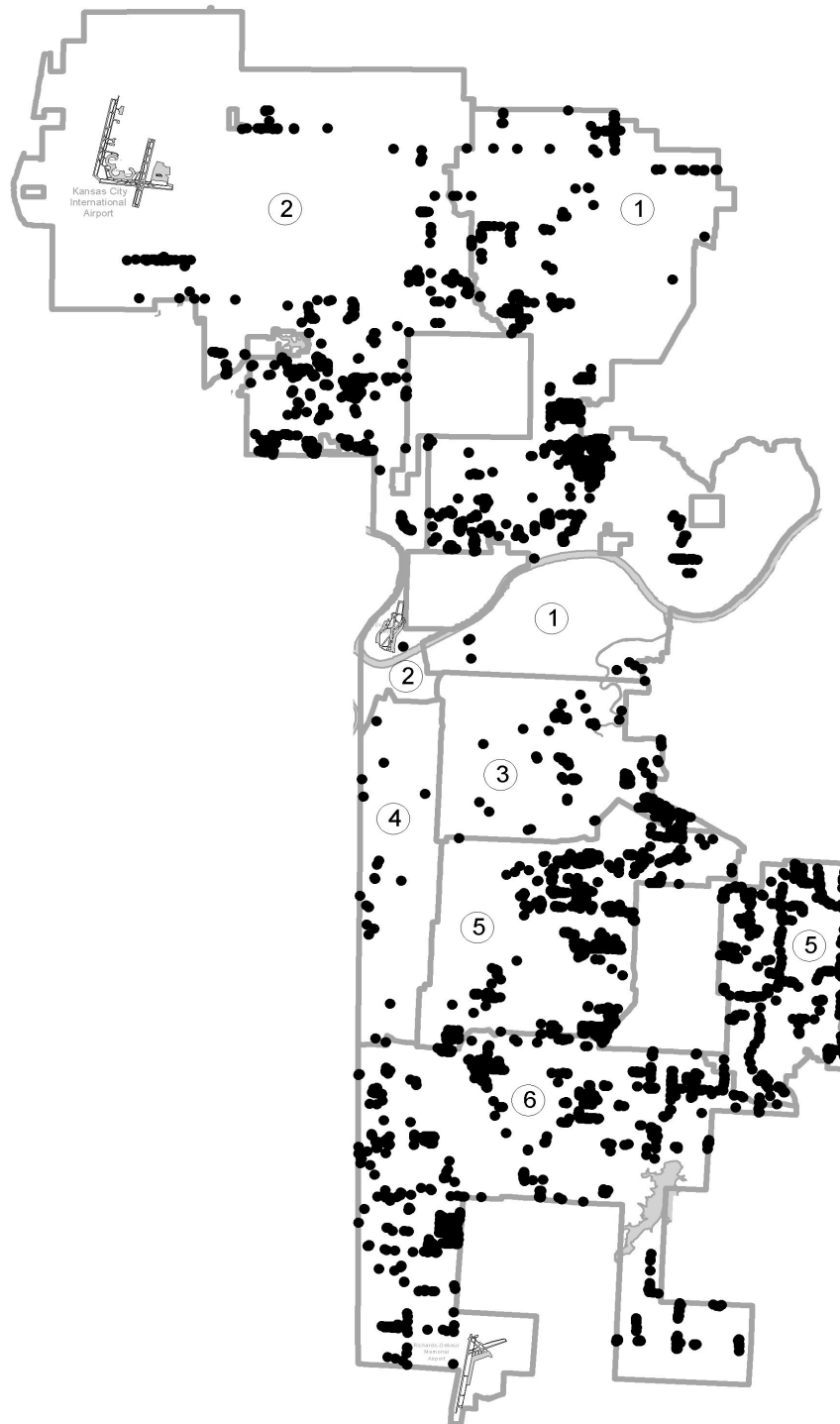
Public Works staff said that the isolated areas on septic systems within Kansas City’s urban core likely resulted from the way sewer systems were developed and built in the late 1800s and early 1900s. Staff said that sanitary sewer development over the last 100 years has been a “hodge-podge” of sewer districts.

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<sup>7</sup> *Long Range Plan for Extending Sanitary Sewers to Developed Areas of Kansas City, Missouri, Without Public Sewers*, Public Works Department, Kansas City, Missouri, September 1998.

Exhibit 1. General Concentration of Unsewered Residential Properties<sup>8</sup> in Kansas City, Missouri

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Sources: Water Services and City Planning and Development departments.

<sup>8</sup> The unsewered locations on the map are based on residential water accounts without corresponding sewer accounts. Sanitary sewers are considered available to a property when a sewer is within 200 feet of the structure, access does not cross another's property, and there is a gravity flow to the sewer line.



**Other Missouri jurisdictions also have infill sewer needs.**

Representatives of Columbia, Joplin, Springfield, and the Metropolitan St. Louis Sewer District indicated that their jurisdictions also have sanitary sewer extension programs. The infill sewer needs in these jurisdictions ranged from about 500 to 8,000 unsewered properties. Public Works staff in Springfield estimated it would cost approximately \$20 million to extend sanitary sewers to the estimated 3,000 remaining unsewered homes in that city. Staff from the other jurisdictions also commented that extending sanitary sewers to the remaining unsewered areas is difficult or costly because of soil and rock conditions, and the slope of the land.

**CIC and FOCUS Recommended Extending Sanitary Sewers**

Both the Community Infrastructure Committee (CIC)<sup>9</sup> and FOCUS<sup>10</sup> consider sanitary sewers to be basic infrastructure services that should be provided to all residents. The CIC report was approved by the City Council as guidelines for addressing city infrastructure needs.<sup>11</sup> The FOCUS plan was approved by the City Council as Kansas City's strategic and comprehensive plan.<sup>12</sup>

**CIC: sanitary sewer access is part of the “basic bundle” of infrastructure.** The CIC report describes sanitary sewers as basic infrastructure for the city's neighborhoods. According to the CIC:

The City should maintain existing neighborhoods at the level to which they were built but ensure that all neighborhoods have at least the following "basic bundle" of infrastructure: 1. access to water services adequate for fire protection, 2. access to the sanitary sewer system, 3. a hazard free and all weather road surface, 4. storm drainage, and 5. street lights.<sup>13</sup>

The CIC report stated that all platted subdivisions with sufficient development and economic capacity to support sanitary sewer installation by the special assessment process should be given that

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<sup>9</sup> Resolution 951551 created the Community Infrastructure Committee (CIC) for the purpose of identifying and assessing the city's infrastructure needs, and planning and capital budgeting practices. The CIC also served as a special sub-committee of the FOCUS City-Wide Physical Framework Work Team.

<sup>10</sup> FOCUS (Forging Our Comprehensive Urban Strategy) is Kansas City's comprehensive and strategic plan for the next 25 years. The *FOCUS Kansas City Plan* was prepared by the citizens of Kansas City, Missouri, to provide general guidance and policy direction for future amendments to all existing adopted plans and ordinances.

<sup>11</sup> Resolution 971326, October 2, 1997.

<sup>12</sup> Resolution 971268, October 30, 1997.

<sup>13</sup> “Closing the Gap” *A New FOCUS On Capital Improvements*, Community Infrastructure Committee, September 1997, p. 16.

opportunity. This report further stated that consideration should be given to providing financial subsidies in areas that have documented health issues or where property owners cannot economically support the costs.

**FOCUS: sanitary sewers form part of the “minimum standards of services.”** The FOCUS plan also considers sanitary sewers an important basic service for the city’s neighborhoods. The plan states:

Every citizen in every neighborhood should receive a basic “bundle” of services. Kansas Citians...should have assurance that certain minimum standards of service will be met. These minimum standards of services include basic infrastructure consisting of paved streets, water service, sanitary sewer service, and storm drainage.<sup>14</sup>

### **Extending Sewers Would Cost Over \$50 Million**

The Public Works Department estimates that extending the sanitary sewer system to include the structures currently not connected to the city’s sanitary sewer system would cost over \$50 million. Funding options for extending sewers to the remaining structures include the city’s tax base, additional bonds, the SRF program, CDBG funds, federal grants, and direct Congressional appropriations.

**Cost of extending the sewers to areas without service is high.** The city’s Five-Year Capital Improvements Plan (CIP) for fiscal years 2002-2006 indicates a citywide need for sanitary sewers that is estimated to cost over \$50 million. In 2001, Public Works staff estimated the cost to extend sewers to about 82 percent of the approximately 5,000 unsewered structures at \$58.5 million. The cost estimates focused on areas with clusters of 10 to 277 houses.

**The program is funded through a mix of sources.** The program is currently funded from several sources: the remaining \$3.2 million in general obligation and SRF bond proceeds; a Water Services Department commitment of up to \$1 million a year from sewer revenue bonds; and \$1 million in PIAC (capital improvements sales tax) funds in fiscal year 2002. Special assessment payments from property owners are used to repay the general obligation and SRF bonds, while sewer fees are used to repay the revenue bonds.

Kansas City’s use of a mix of funding methods for sanitary sewer construction is not uncommon. The Missouri jurisdictions we spoke with fund or have funded their programs through a combination of

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<sup>14</sup> *FOCUS Governance Plan*, Kansas City, Missouri, p. 5.

special assessments, general fund revenues, user fees, property taxes, bonds, SRF, and CDBG funds.

**Long-range plan identified funding sources.** Public Works' 1998 long-range plan listed funding sources, included a policy for subsidizing special assessments, and outlined guidelines for project selection. Funding sources identified in the plan included continued use of SRF bonds, the remaining general obligation bond authority (now expired), and revenue bond proceeds from Water Services for the assessment subsidy.

**State law limits special assessment amounts.** Changes made in 2001 to state statutes limit the amount of special assessment revenues that can be expected from sewer benefit districts that include properties that qualify for protection. The state Farmland Protection Act<sup>15</sup> is intended to protect owners of property used for farming purposes from costs associated with assessments for improvements running across the land. The act applies to tracts of real property comprised of 10 or more contiguous acres with no less than 75 percent being used for farming purposes. Assessments for water and sewer improvements are deferred, without interest, until improvements on the property are voluntarily connected to the system or the property is no longer used for farming purposes.

The Farmland Protection Act contains an exception that applies to Kansas City, Missouri, which allows the city to collect a portion of special assessments from protected properties. Tracts of property entitled to protection under the act can be assessed \$500 per acre up to a maximum of \$10,000. The remaining amount of the assessment is deferred until improvements on the property are voluntarily connected to the system or the property is no longer used for farming purposes.

**Some Missouri cities limit assessment amounts.** Representatives of two Missouri cities indicated that their jurisdictions have placed limits on the level of special assessments. Columbia has capped special assessments at \$5,000 per tract and covers the cost of the deferment through sewer utility revenues. The deferred assessment is charged when the property is subdivided or rezoned. Springfield caps assessments at \$5,800 per tract of land and covers the costs through the sewer utility's retained earnings and payments in lieu of taxes from the city's combined water/gas/electric utility. The deferred assessment amount is charged when the property is subdivided.

**Additional sources of revenue need to be identified.** The need for extending the city's sanitary sewer system to unserved areas far exceeds the program's available resources. The limited amount of funding

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<sup>15</sup> RSMo §262.800 - §262.810.

*Follow-up Audit: Sanitary Sewer Special Assessment Program*

currently available, combined with state restrictions on special assessments, result in a need for the program to identify new sources of funding if sanitary sewers are to be expanded to those areas not currently served.

Potential funding methods for extending sewers include the city's tax base, additional bonds, the SRF program, CDBG funds, federal grants, and direct Congressional appropriations. (See Exhibit 2 for a brief discussion of these methods and whether they are currently used to fund the sanitary sewer program.) The Director of Public Works should evaluate funding methods to meet the need for sanitary sewer construction, and recommend appropriate methods to the City Manager.

Exhibit 2. Methods for Funding Sanitary Sewer Construction

Method	Description	Currently Used
<b>Local Taxes</b>		
Property Taxes	Relatively stable and potentially large revenue source. Progressive tax with high taxpayer compliance. Deductible on federal income tax returns. May increase housing costs and affect business investment in real estate. Increase requires voter approval.	No
Sales Taxes	Considered a convenient and politically acceptable form of infrastructure financing. Regressive tax that is generally easy to administer. Broadens the tax base to include non-residents. Revenues vary with spending trends. Increase or new tax requires voter approval. Kansas City has a 1 percent sales tax for capital improvements	Yes
Income Taxes	Revenues depend on the local tax base and are susceptible to economic swings. Dependence on this type of tax to fund infrastructure is not advisable. Increase requires voter approval. Kansas City has a 1 percent earnings tax.	No
Special Assessments	Usually used to fund basic infrastructure projects including sewers. Generates revenues that can be used to finance public bonds or pay-as-you-go construction. May be more politically acceptable and equitable than a general tax increase because levies are confined to the local users of benefits. Special assessments may be inappropriate to finance infrastructure with far-reaching benefits not confined to the assessment area. Special assessments are currently being used to repay the bonds issued to construct the sewer projects.	Yes

Method	Description	Currently Used
<b>Fees</b>		
User Charges	Can be used to pay for operating expenses, maintenance, and retiring bonds. Appropriate when the service received is easily identified and the amount of use can generate sufficient revenues. May not be a desirable method for financing a specific capital project because they can support operating expenses. User charges are being used to repay the sewer revenue bonds.	Yes
<b>Bonds</b>		
General Obligation Bonds	Common financing mechanism for new infrastructure. Interest rates are generally lower than those on revenue bonds because the bond is backed by the "full faith and credit" of the city. New bond authorization requires voter approval. This type of bond was authorized in 1988 to provide funding for sanitary sewer construction.	Yes
Revenue Bonds	Often a desirable method to finance new infrastructure because debt is repaid with revenues received from the users of the improvement. Typically used when a specific revenue source is identified. Revenue bonds may not affect debt capacity, but may have higher interest rates. New bond authorization requires voter approval. Additional funding provided by the Water Services Department is from revenue bond proceeds.	Yes
State Revolving Fund	Uses federal funds from the Environmental Protection Agency and state funds to subsidize a portion of the interest costs. Bonds issued through SRF have an effective interest rate substantially lower than the market rate. Projects using SRF funds must meet state or federal program requirements. SRF bond proceeds were used to refund sewer special assessment general obligation bonds.	Yes
<b>Federal Funds</b>		
Community Development Block Grants	These federal funds can be used for drinking and wastewater projects. Projects must meet the Department of Housing and Urban Development's eligibility requirements.	No
Other Federal Grants	A number of federal agencies have grant and loan programs that can be used for water and wastewater projects. Projects and local governments must meet eligibility requirements. Additional research is needed to determine the city's eligibility.	No
Direct Federal Appropriations	Funds earmarked each year by Congress and federal agencies for projects specifically designated in the appropriations process. Very high competition for the limited amount of special project funding. Local governments receiving earmarked funds must be highly organized. The city would need to lobby federal agencies and Congress to obtain these funds.	No

Sources: *Introduction to Infrastructure Financing*, ICMA Service Report, March 1999; *Funding Water and Wastewater Infrastructure*, ICMA Service Report, October 1999; and *Water Infrastructure: Information on Federal and State Financial Assistance*, General Accounting Office, November 2001.

### **Community Development Block Grant Funds Could Be Redirected to Fund Sanitary Sewer Construction**

Community Development Block Grant (CDBG) funds are a potential source of funding that the city is not using for sanitary sewer construction. Kansas City uses CDBG funds for a variety of programs, including housing, community revitalization, and employment opportunities. The funds could be redirected to pay for sanitary sewer construction or assistance for connecting homes to the sewer system.

In fiscal year 2000, the Department of Housing and Urban Development (HUD) provided about \$413 million in CDBG funds that were used by state and local governments for water and wastewater projects. To be eligible, all activities or projects must meet at least one of the grant program's national objectives: benefiting low and moderate income persons, preventing or eliminating slums or blight, and addressing particularly urgent community development needs caused by conditions that pose a serious and immediate threat to the community's health or welfare.<sup>16</sup>

Assistance for either sewer construction or connection would be based on HUD's eligibility guidelines. The CIC report and FOCUS plan both recommend directing CDBG funds to capital improvement projects. Joplin and Springfield use CDBG funds to either construct sanitary sewers, which subsidizes or lowers the special assessment, or help property owners connect to the sewer system. The City Manager should consider using CDBG funds to construct sanitary sewers in areas of the city meeting HUD's eligibility guidelines.

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<sup>16</sup> *Water Infrastructure: Information on Federal and State Financial Assistance*, General Accounting Office, November 2001, pp. 11-13.

## **Recommendations**

1. The Director of Finance should work with the Director of Information Technology to develop reports that would improve the Finance Department's ability to monitor and report on sewer special assessment collections and delinquent accounts.
2. The City Manager should clarify the sewer special assessment funding agreement between the Public Works and Water Services departments.
3. The Director of Public Works should evaluate funding methods to meet the need for sanitary sewer construction, and recommend appropriate methods to the City Manager.
4. The City Manager should consider using Community Development Block Grant funds to construct sanitary sewers in areas of the city meeting the Department of Housing and Urban Development's eligibility guidelines.





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## **Appendix A**

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### **Prior Audit Recommendations**



### **Prior Audit Recommendations**

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1. The city manager should prepare for City Council consideration an analysis of the impact of various changes for financing the program, including changing the overhead rate to reflect varying amounts of subsidy to property owners, redefining construction costs, and extending trunklines closer to residential property.
  2. The city manager should develop a plan to cover the sewer special assessment program deficit from the sewer rate base rather than the general municipal tax base.
  3. The Public Works director/Water Services director should prepare a comprehensive multi-year plan for the sewer special assessment program that considers public health effects, property owner's interest, and available funding.
  4. The Public Works director/Water Services director should request and provide information on public health matters at the beginning of a sewer project, prior to the public interest survey.
  5. The Finance director/Public Works director should select the financing source for the sewer special assessment program that minimizes total costs of the program.
  6. On January 1 of each calendar year, the Finance director should, as required by the city's Administrative Code, review the financial condition of all special assessment funds and their ability to meet debt service obligations for the fiscal year.
  7. The city manager should study the possibility of including special assessment billings on the city's real property tax billings.
  8. The Finance director should develop a system for tracking individual unpaid sewer special assessment bills.
  9. The Finance director and city attorney should work together to expedite the collection process.
  10. The Finance director should ensure that accounts and fund balances are reconciled and corrected on a timely basis.
  11. The city manager should prepare for City Council consideration a transfer of funds from the CDBG Program or citywide sales tax money to the sewer special assessment fund for reimbursement of the remaining project costs associated with the Searcy Creek Sewer Extension Project.
  12. The city manager should develop a policy to address the proper method of funding sewer projects that are not part of the special assessment program.
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## **Appendix B**

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### **Audit Report Tracking System (ARTS) Reports**



Audit Report Tracking System			
<b>1. Audit Title</b> Sanitary Sewer Special Assessment Program	<b>2. This Report Date</b> 3/17/97		
<b>3. Department</b> Finance	<b>4. Last Report Date</b> N/A		
<b>5. Department Head</b> Janice M. Reed	<b>6. Contact Person/ Phone</b> Randall J. Landes 274-1317		
<b>7. Audit Release Date</b> 9/1/96	<b>8. ARTS Number</b>  		
<b>9. Status of All Audit Recommendations</b>			
<b>Status</b>	<b>Date</b>	<b>Status</b>	<b>Date</b>
1. N/A	—	7. In progress	—
2. N/A	—	8. Implemented	Sep-96
3. N/A	—	9. In progress	—
4. N/A	—	10. Implemented	Feb-97
5. Implemented	Feb-97	11. N/A	—
6. Implemented	Dec-96	12. N/A	—
<b>10. Recommendations Included in this Report</b>			
<p><b>5. The Finance director/Public Works director should select the financing source for the sewer special assessment program that minimizes total costs of the program.</b></p> <p>Description of Status: (Implemented) - The Finance Department is currently working with the Public Works Department and the State to include as many projects as possible in the State Revolving Fund (SRF). In addition to current and planned projects, prior-year projects are being examined to determine the potential for advanced refunding and conversion to SRF financing.</p> <p><b>6. On January 1 of each calendar year, the Finance director should, as required by the city's Administrative Code, review the financial condition of all special assessment funds and their ability to meet debt service obligations for the fiscal year.</b></p> <p>Description of Status: (Implemented) - Prior to January 1, 1997 the Finance director prepared a report detailing the financial condition of the sewer special assessment fund.</p>			

**7. The city manager should study the possibility of including special assessment billings on the city's real property tax billings.**

Description of Status: (In progress) - A project is currently underway to transfer the responsibility for collecting real property billings from the City to the counties. At present, special assessments billings will not be included due to the counties' reluctance to take on this additional responsibility; however, the City will continue to pursue having them do so by FY 1999.

**8. The Finance director should develop a system for tracking individual unpaid sewer special assessment bills.**

Description of Status: (Implemented) - A report for tracking all unpaid special assessment bills has been developed and is currently being printed on a monthly basis.

**9. The Finance director and city attorney should work together to expedite the collection process.**

Description of Status: (In Progress) - The Finance Director and the City Attorney's Office have worked together to address this issue. Finance defers to their response for the purpose of this ARTS update.

**10. The Finance director should ensure that accounts and fund balances are reconciled and corrected on a timely basis.**

Description of Status: (Implemented) The annual audit of the financial records of the city was completed November 29, 1996. The audit process results in the reconciliation of accounts and fund balances and identifies any budget based adjustments which should be posted to the general ledger. The roll forward of those budget based audit adjustments was completed during February, 1997. The target date to complete this roll forward in future years will be the second month following the completion of the audit. The target date to complete next years audit will be September 30, and the roll forwards will be completed by November 30, 1997.

Additionally, Financial Reporting staff monitor account balances on a daily basis in order to minimize the number of audit adjustments required to be posted to the permanent general ledger.



Audit Report Tracking System																															
1.	<b>Audit Title</b> Sanitary Sewer Special Assessment Program	2.	<b>This Report Date</b> 3/17/97																												
3.	<b>Department</b> Law	4.	<b>Last Report Date</b> N/A																												
5.	<b>Department Head</b> Kathleen A. Hauser	6.	<b>Contact Person/ Phone</b> Kathleen A. Hauser 274-2515																												
7.	<b>Audit Release Date</b> 9/1/96	8.	<b>ARTS Number</b> 956-026-1																												
<b>9. Status of All Audit Recommendations</b>																															
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%; text-align: center;">Status</th> <th style="width: 25%; text-align: center;">Date</th> <th style="width: 25%; text-align: center;">Status</th> <th style="width: 25%; text-align: center;">Date</th> </tr> </thead> <tbody> <tr> <td>1. N/A</td> <td></td> <td>7. In progress</td> <td></td> </tr> <tr> <td>2. N/A</td> <td></td> <td>8. Implemented</td> <td>Sep-96</td> </tr> <tr> <td>3. N/A</td> <td></td> <td>9. In progress</td> <td></td> </tr> <tr> <td>4. N/A</td> <td></td> <td>10. Implemented</td> <td>Feb-97</td> </tr> <tr> <td>5. Implemented</td> <td>Feb-97</td> <td>11. N/A</td> <td></td> </tr> <tr> <td>6. Implemented</td> <td>Dec-96</td> <td>12. N/A</td> <td></td> </tr> </tbody> </table>				Status	Date	Status	Date	1. N/A		7. In progress		2. N/A		8. Implemented	Sep-96	3. N/A		9. In progress		4. N/A		10. Implemented	Feb-97	5. Implemented	Feb-97	11. N/A		6. Implemented	Dec-96	12. N/A	
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<b>10. Recommendations Included in this Report</b>																															
<p><b>9. The Finance director and city attorney should work together to expedite the collection process.</b></p> <p>Description of Status: (In Progress) - The Finance director and the City's Attorney's Office have worked together to address this issue. Finance defers to their response for the purpose of this ARTS update.</p> <p>With the current status of the state legislation, it is not cost effective for the City to initiate collection of outstanding payments due on special assessments. Given the cost of filing and staff time necessary to prepare pleadings and pursue the matter in court, there is no advantage to bringing an action for collection on an annual basis. However, as previously recommended, appropriate changes in state law would provide the avenue to focus on failure to pay an annual assessment. One change to state law was proposed by the Finance Department this year but not accepted as a legislative priority. That change would have sought to create a coordinated system of collection of all delinquent taxes and assessments within Jackson, Clay and Platte Counties. The other change to state law would be to designate assessments as personal obligations of the property owner(s) rather than an obligation on the property. If the individual property owner had a liability, pursuit of payment on the obligation would be reconciled with the continuing obligation on the property itself. Absent these changes, individual collection efforts would not be cost effective.</p> <p>It is proposed, however, that Finance and Law continue to monitor delinquent payments to assess the status of delinquencies. There may be rare circumstances under which the delinquent assessment is of such magnitude that there would be a cost benefit to pursuing the collection immediately rather than delaying the prosecution of the claim.</p>																															

<b>Audit Report Tracking System</b>			
<b>1.</b>	<b>Audit Title</b> Sanitary Sewer Assessment Program	<b>2.</b>	<b>This Report Date</b> 3/17/97
<b>3.</b>	<b>Department</b> Public Works/Finance/Law	<b>4.</b>	<b>Last Report Date</b> N/A
<b>5.</b>	<b>Department Head</b> Ed Wolf, Janice Reed, Kathy Hauser	<b>6.</b>	<b>Contact Person/Phone</b> Jim Merideth 921-6006
<b>7.</b>	<b>Audit Release Date</b> 9/1/96	<b>8.</b>	<b>ARTS Number</b> 956-026-1
<b>9. Status of All Recommendations</b>			
<u><b>Status</b></u>	<u><b>Date</b></u>	<u><b>Status</b></u>	<u><b>Date</b></u>
1. Partially Implemented		7. In Progress	
2. In Progress		8. Implemented	Sep-96
3. In Progress		9. In Progress	
4. Implemented		10. Implemented	Feb-97
5. Implemented	Feb-97	11. In Progress	
6. Implemented	Dec-96	12. In Progress	
<b>10. Recommendations Included in this Report</b>			
<p><b>Recommendation 1:</b> The city manager should prepare for City Council consideration an analysis of the impact of various changes for financing the program, including changing the overhead rate to reflect varying amounts of subsidy to property owners, redefining construction costs, and extending trunklines closer to residential property.</p> <p><b>Partially Implemented Public Works Response:</b> The sewer assessment rate was changed from a 1.13 to a 1.25 multiplier in February 1995. We will evaluate the change as the sewer program progresses. Public Works is working with Water Services to provide a subsidy for assessment sewers in the future. The Public Works sewer program staff is analyzing alternatives and will recommend a subsidy program to the city manager by April 30, 1998. Water Services is currently analyzing the extension of trunklines closer to residential property.</p> <p><b>Recommendation 2:</b> The city manager should develop a plan to cover the sewer special assessment program deficit from the sewer rate base rather than the general municipal tax base.</p> <p><b>In Progress Public Works Response:</b> Law, Water Services, and Public Works are currently working on such a plan. There are some legal concerns regarding which Water Services fund the special assessment subsidy should come from. Any delay in developing a plan is caused by legal issues.</p> <p><b>Recommendation 3:</b> The Public Works director/Water Services director should prepare a comprehensive multi-year plan for the sewer special assessment program that considers public health effects, property owner's interest, and available funding.</p> <p><b>In Progress Public Works Response:</b> Public works has been working from a multi-year plan since 1988. As the program has progressed the remaining areas of the city with septic tanks are faced with more difficult and expensive construction. Staff will prepare a revised multi-year plan for recommendation to the City Manager by April 30, 1998.</p>			

## Audit Report Tracking System

**Audit Title:** Sanitary Sewer Special Assessment Program  
**Report Date:** 3/17/97

### 10. Recommendations Included in this Report (continued)

**Recommendation 4:** The Public Works director/Water Services director should request and provide information on public health matters at the beginning of a sewer project, prior to the public interest survey.

**Implemented Public Works Response:** Public Works has discussed with Water Services a plan to use their laboratory capabilities in determining health hazard levels. Samples have already been taken on one project and both Water Services and Neighborhood Community Services will be used to obtain results before card inquires are sent on questionable areas. The Health Department has also agreed to assist Public Works in determining health hazard levels.

**Recommendation 5:** The Finance director/Public Works director should select the financing source for the sewer special assessment program that minimizes total costs of the program.

**Implemented Finance Response:** The Finance Department is currently working with the Public Works Department and the State to include as many projects as possible in the State Revolving fund (SRF). In addition to current and planned projects, prior-year projects are being examined to determine the potential for advanced refunding and conversion to SRF financing.

**Implemented Public Works Response:** Public Works Department has been working with Finance Department and the Water Services Department for the purpose of jointly financing projects through the State revolving fund (SRF) program. The state will be holding a Bond sale in April 1997 with both Water Services and Public Works projects. Public works is presently working with the Department of Natural Resources (DNR) on prior constructed project sot obtain low interest bonds for refinancing a portion of the current bonds.

**Recommendation 6:** On January 1 of each calendar year, the Finance director should, as required by the city's Administrative Code, review the financial condition of all special assessment funds and their ability to meet debt service obligations for the fiscal year.

**Implemented Finance Response:** Prior to January 1, 1997 the Finance director prepared a report detailing the financial condition of the sewer special assessment fund.

**Recommendation 7:** The city manager should study the possibility of including special assessment billing s on the city's real property tax billings.

**In Progress Finance Response:** A project is currently underway to transfer the responsibility for collecting real property billings from the City to the counties. At present, special assessments billings will not be included due to the counties' reluctance to take on this additional responsibility; however, the City will continue to pursue having them do so by FY 1999.

**Recommendation 8:** The Finance director should develop a system for tracking individual unpaid sewer special assessment bills.

**Implemented Finance Response:** A report for tracking all unpaid special assessment bills has been developed and is currently being printed on a monthly basis.

**Recommendation 9:** The Finance director and city attorney should work together to expedite the collection process.

**In Progress Finance Response:** The Finance Director and the City Attorney's Office have worked together to address this issue. Finance defers to their response for the purpose of this ARTS update.

**Law Response:** With the current status of the state legislation, it is not cost effective for the City to initiate collection of outstanding payments due on special assessments. Given the cost of filing and staff time necessary to prepare pleadings and pursue the matter in court, there is no advantage to bring an action for collection on an annual basis. However, as previously recommended, appropriate changes in state law would provide the avenue to focus on failure to pay an annual assessment. One change to state law was proposed by the Finance Department this year but not accepted as a legislative priority. That change would have sought to create a coordinated system of collection of all delinquent taxes and assessments within Jackson, Clay and Platte Counties. The other change to state law would be to designate assessments as personal obligations of the property owner(s) rather than an obligation on the property. If the individual property owner had a liability, pursuit of payment on the obligation would be reconciled with the continuing obligation on the property itself. Absent these changes, individual collection efforts would not be cost effective.

**Audit Report Tracking System**

**Audit Title:** Sanitary Sewer Special Assessment Program  
**Report Date:** 3/17/97

**10. Recommendations Included in this Report (continued)**

It is proposed, however, that Finance and Law continue to monitor delinquent payments to assess the status of delinquencies. There may be rare circumstances under which the delinquent assessment is of such magnitude that there would be a cost benefit to pursuing the collection immediately rather than delaying the prosecution of the claim.

**Recommendation 10:** The Finance director should ensure that accounts and fund balances are reconciled and corrected on a timely basis.

**Implemented Finance Response:** The annual audit of the financial records of the city was completed November 29, 1996. The audit process results in the reconciliation of accounts and fund balances and identifies any budget based adjustments which should be posted to the general ledger. The roll forward of those budget based audit adjustments was completed during February, 1997. The target date to complete this roll forward in future years will be the second month following the completion of the audit. The target date to complete next years audit will be September 30, and the roll forwards will be completed by November 30, 1997.

Additionally, Financial Reporting staff monitor account balances on a daily basis in order to minimize the number of audit adjustments required to be posted to the permanent general ledger.

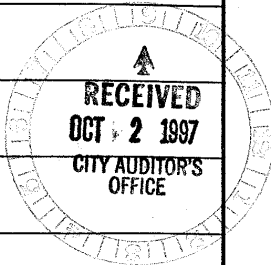
**Recommendation 11:** The city manager should prepare for City Council consideration a transfer of funds from the CDBG Program or city-wide sales tax money to the sewer special assessment fund for reimbursement of the remaining project costs associated with the Searcy Creek Sewer Extension Project.

**In Progress Public Works Response:** A repayment schedule will be developed by the Public Works department after collaboration with other departments to arrange for the transfer of funds to reimburse costs associated with the Searcy Creek Project. The schedule will be submitted to the City Manager by July 1997.

**Recommendation 12:** The city manager should develop a policy to address the proper method of funding sewer projects that are not part of the special assessment program.

**In Progress Public Works Response:** Public Works department will assist the City Managers Office in developing a policy that will identify the circumstances under which special assessments would not be an appropriate financing tool and what alternative funding sources should be used. The policy will be completed by September 1997.

Audit Report Tracking System			
<b>1. Audit Title</b> Sanitary Sewer Assessment Program	<b>2. This Report Date</b> 9/15/97		
<b>3. Department</b> Public Works/Finance/Law	<b>4. Last Report Date</b> 3/17/97		
<b>5. Department Head</b> Ed Wolf, Janice Reed, Kathy Houser	<b>6. Contact Person/Phone</b> Jim Merideth 921-6006		
<b>7. Audit Release Date</b> 9/1/96	<b>8. ARTS Number</b> 956-026-1		



Status	Date	Status	Date
1. Partially Implemented		7. In Progress	
2. In Progress		8. Implemented	Sep-96
3. In Progress		9. In Progress	
4. Implemented		10. Implemented	Feb-97
5. Implemented	Feb-97	11. In Progress	
6. Implemented	Dec-96	12. In Progress	

**10. Recommendations Included in this Report**

**Recommendation 1:** The city manager should prepare for City Council consideration an analysis of the impact of various changes for financing the program, including changing the overhead rate to reflect varying amounts of subsidy to property owners, redefining construction costs, and extending trunklines closer to residential property.

**Partially Implemented Public Works Response:** The sewer assessment rate was changed from a 1.13 to a 1.25 multiplier in February 1995. We will evaluate the change as the sewer program progress. Public Works is working with Water Services to provide a subsidy for assessment sewers in the future. The Public Works sewer program staff is analyzing alternatives and will recommend a subsidy program to the city manager by April 30, 1998. *The November 4, 1997 Bond election for the Sewer Bonds will provide 10 million dollars for developing unsewered areas.*

**Recommendation 2:** The city manager should develop a plan to cover the sewer special assessment program deficit from the sewer rate base rather than the general municipal tax base.

**In Progress Public Works Response:** Law, Water Services, and Public Works are currently working on such a plan. There are some legal concerns regarding which Water Services fund the special assessment subsidy should come from. Any delay in developing a plan is caused by legal issues.

Page 2 of 4
<b>Audit Report Tracking System</b>
<b>Audit Title:</b> Sanitary Sewer Special Assessment Program <b>Report Date:</b> 9/15/97
<b>10. Recommendations Included in this Report (continued)</b>
<p><b>Recommendation 3:</b> The Public Works director/Water Services director should prepare a comprehensive multi-year plan for the sewer special assessment program that considers public health effects, property owner's interest, and available funding.</p> <p><b>In Progress Public Works Response:</b> Public works has been working from a multi-year plan since 1988. As the program has progressed the remaining areas of the city with septic tanks are faced with more difficult and expensive construction. Staff will prepare a revised multi-year plan for recommendation to the city manager by April 30, 1998.</p> <p><b>Recommendation 4:</b> The Public Works director/Water Services director should request and provide information on public health matters at the beginning of a sewer project, prior to the public interest survey.</p> <p><b>Implemented Public Works Response:</b> Public Works has discussed with Water Services a plan to use their laboratory capabilities in determining health hazard levels. Samples have already been taken on one project and both Water Services and Neighborhood Community Services will be used to obtain results before card inquires are sent on questionable areas.</p> <p><b>Recommendation 5:</b> The Finance director/Public Works director should select the financing source for the sewer special assessment program that minimizes total costs of the program.</p> <p><b>Implemented Finance Response:</b> The Finance Department is currently working with the Public Works Department and the State to include as many projects as possible in the State Revolving fund (SRF). In addition to current and planned projects, prior-year projects are being examined to determine the potential for advanced refunding and conversion to SRF financing.</p> <p><b>Implemented Public Works Response:</b> Public Works Department has been working with Finance Department and the Water Services Department for the purpose of jointly financing projects through the State revolving fund (SRF) program. The state held a Bond sale in April 1997 with both Water Services and Public Works projects included. Public Works has worked with the Department of Natural Resources (DNR) on prior constructed projects to obtain low interest bonds for refinancing a portion of the current bonds. <i>A total of 5,733,380 million dollars has been refinanced from the 1991 and 1996 Bond issues.</i></p> <p><b>Recommendation 6:</b> On January 1 of each calendar year, the Finance director should, as required by the city's Administrative Code, review the financial condition of all special assessment funds and their ability to meet debt service obligations for the fiscal year.</p> <p><b>Implemented Finance Response:</b> Prior to January 1, 1997 the Finance director prepared a report detailing the financial condition of the sewer special assessment fund.</p>

Page 3 of 4	
<b>Audit Report Tracking System</b>	
<b>Audit Title:</b>	Sanitary Sewer Special Assessment Program
<b>Report Date:</b>	9/15/97
<b>10. Recommendations Included in this Report (continued)</b>	
<p><b>Recommendation 7:</b> The city manager should study the possibility of including special assessment billing s on the city's real property tax billings.</p> <p><b>In Progress Finance Response:</b> A project is currently underway to transfer the responsibility for collecting real property billings from the City to the counties. At present, special assessments billings will not be included due to the counties' reluctance to take on this additional responsibility; however, the City will continue to pursue having them do so by FY 1999.</p> <p><b>Recommendation 8:</b> The Finance director should develop a system for tracking individual unpaid sewer special assessment bills.</p> <p><b>Implemented Finance Response:</b> A report for tracking all unpaid special assessment bills has been developed and is currently being printed on a monthly basis.</p> <p><b>Recommendation 9:</b> The Finance director and city attorney should work together to expedite the collection process.</p> <p><b>In Progress Finance Response:</b> The Finance Director and the City Attorney's Office have worked together to address this issue. Finance defers to their response for the purpose of this ARTS update.</p> <p><b>Law Response:</b> With the current status of the state legislation, it is not cost effective for the City to initiate collection of outstanding payments due on special assessments. Given the cost of filing and staff time necessary to prepare pleadings and pursue the matter in court, there is no advantage to bring an action for collection on an annual basis. However, as previously recommended, appropriate changes in state law would provide the avenue to focus on failure to pay an annual assessment. One change to state law was proposed by the Finance Department this year but not accepted as a legislative priority. That change would have sought to create a coordinated system of collection of all delinquent taxes and assessments within Jackson, Clay and Platte Counties. The other change to state law would be to designate assessments as personal obligations of the property owner(s) rather than an obligation on the property. If the individual property owner had a liability, pursuit of payment on the obligation would be reconciled with the continuing obligation on the property itself. Absent these changes, individual collection efforts would not be cost effective.</p> <p>It is proposed, however, that Finance and Law continue to monitor delinquent payments to assess the status of delinquencies. There may be rare circumstances under which the delinquent assessment is of such magnitude that there would be a cost benefit to pursuing the collection immediately rather than delaying the prosecution of the claim.</p> <p><b>Recommendation 10:</b> The Finance director should ensure that accounts and fund balances are reconciled and corrected on a timely basis.</p>	

Page 4 of 4	
<b>Audit Report Tracking System</b>	
<b>Audit Title:</b>	Sanitary Sewer Special Assessment Program
<b>Report Date:</b>	9/15/97
<b>10. Recommendations Included in this Report (continued)</b>	
<p><b>Implemented Finance Response:</b> The annual audit of the financial records of the city was completed November 29, 1996. The audit process results in the reconciliation of accounts and fund balances and identifies any budget based adjustments which should be posted to the general ledger. The roll forward of those budget based audit adjustments was completed during February, 1997. The target date to complete this roll forward in future years will be the second month following the completion of the audit. The target date to complete next years audit will be September 30, and the roll forwards will be completed by November 30, 1997.</p> <p>Additionally, Financial Reporting staff monitor account balances on a daily basis in order to minimize the number of audit adjustments required to be posted to the permanent general ledger.</p> <p><b>Recommendation 11:</b> The city manager should prepare for City Council consideration a transfer of funds from the CDBG Program or city-wide sales tax money to the sewer special assessment fund for reimbursement of the remaining project costs associated with the Searcy Creek Sewer Extension Project.</p> <p><b>Implemented Public Works Response:</b> The repayment <i>recommendation</i> was developed by the Public Works department after collaboration with other departments to <i>coordinate</i> the transfer of funds to reimburse costs associated with the Searcy Creek Project. The <i>recommendation was submitted</i> to the City Manager in July 1997.</p> <p><b>Recommendation 12:</b> The city manager should develop a policy to address the proper method of funding sewer projects that are not part of the special assessment program.</p> <p><b>Implemented Public Works Response:</b> Public Works department <i>worked with</i> the City Managers Office in developing a policy that will identify the circumstances under which special assessments would not be an appropriate financing tool and what alternative funding sources should be used. The <i>draft policy has been sent to the City Manager in September 1997.</i></p>	



<b>Audit Report Tracking System</b>																													
<b>1. Audit Title</b> Sanitary Sewer Assessment Program	<b>2. This Report Date</b> 4/1/98																												
<b>3. Department</b> Public Works/Finance/Law	<b>4. Last Report Date</b> 9/15/97																												
<b>5. Department Head</b> Ed Wolf, Janice Reed, Walter O'Toole	<b>6. Contact Person/Phone</b> Jim Merideth 983-4816																												
<b>7. Audit Release Date</b> 9/1/96	<b>8. ARTS Number</b> 956-026-3																												
<b>9. Status of All Recommendations</b>																													
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**Audit Report Tracking System**

**Audit Title:** Sanitary Sewer Special Assessment Program  
**Report Date:** 4/1/98

**10. Recommendations Included in this Report (continued)**

Program. Water Services and Public Works will continue to work on a recommendation to address the deficit.

**Recommendation 3:** The Public Works Director/Water Services Director should prepare a comprehensive multi-year plan for the sewer special assessment program that considers public health effects, property owner's interest, and available funding.

**In Progress Public Works Response:** Public Works has been working from a multi-year plan since 1988. As the program has progressed the remaining areas of the city with septic tanks are faced with more difficult and expensive construction. Staff will prepare a revised multi-year plan for recommendation to the City Manager by April 30, 1998. This plan is in the preparation process and will be presented to the City Manager as stated.

**Recommendation 7:** The City Manager should study the possibility of including special assessment billings on the City's real property tax billings.

**In Progress Finance Response:** A project is currently underway to transfer the responsibility for collecting real property billings from the City to the counties. At present, special assessments billings will not be included due to the counties' reluctance to take on this additional responsibility; however, the City will continue to pursue having them do so by FY 1999.

**Recommendation 9:** The Finance Director and City Attorney should work together to expedite the collection process.

**In Progress Finance Response:** The Finance Director and the City Attorney's Office have worked together to address this issue. Finance defers to their response for the purpose of this ARTS update.

**Law Response:** With the current status of the state legislation, it is not cost effective for the City to initiate collection of outstanding payments due on special assessments. Given the cost of filing and staff time necessary to prepare pleadings and pursue the matter in court, there is no advantage to bring an action for collection on an annual basis. However, as previously recommended, appropriate changes in state law would provide the avenue to focus on failure to pay an annual assessment. One change to state law was proposed by the Finance Department this year but not accepted as a legislative priority. That change would have sought to create a coordinated system of collection of all delinquent taxes and assessments within Jackson, Clay and Platte Counties. The other change to state law would be to designate assessments as personal obligations of the property owner(s) rather than an obligation on the property. If the individual property owner had a liability, pursuit of payment on the obligation would be reconciled with the continuing obligation on the property itself. Absent these changes, individual collection efforts would not be cost effective.

It is proposed, however, that Finance and Law continue to monitor delinquent payments to assess the status of delinquencies. There may be rare circumstances under which the delinquent assessment is of such magnitude that there would be a cost benefit to pursuing the collection immediately rather than delaying the prosecution of the claim.

<b>Audit Report Tracking System</b>																													
<b>1. Audit Title</b> Sanitary Sewer Assessment Program	<b>2. This Report Date</b> 11/4/98																												
<b>3. Department</b> Public Works/Finance/Law	<b>4. Last Report Date</b> 5/6/98																												
<b>5. Department Head</b> Ed Wolf, Janice Reed, Walter O'Toole	<b>6. Contact Person/Phone</b> Jim Merideth 983-4816																												
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Page 2 of 2	
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<b>Report Date:</b>	11/4/98
<b>10. Recommendations Included in this Report (continued)</b>	
<p><b>Not Implemented Finance Response:</b> The Finance Department has been working with the counties to transfer the responsibility of collecting 1999 real property billings from the City to the counties. Jackson County currently collects real property taxes and it is anticipated that Clay and Platt Counties will collect real property taxes in December 1999. While talking with the counties about real property tax and special assessments, there was reluctance to take on special assessment billings at this time. Finance will continue to pursue, but it may be several years before we reach agreement on special assessments.</p> <p><b>Recommendation 9:</b> The Finance Director and City Attorney should work together to expedite the collection process.</p> <p><b>Not Implemented Finance Response:</b> The Finance Director and the City Attorney's Office have worked together to address this issue.</p> <p>In order to expedite the collection process real estate taxes and special assessments need to be treated equally. For this to occur, changes to state statutes need to be made. The Finance Department proposed an item for the state legislative package last year; however, due to the number of priorities of the City this item could not be addressed. This is not to say we will not pursue making real estate taxes and special assessments equal in priority again. The Finance Department proposal for state legislative priorities for 1999 includes a recommendation to change state statutes that would expedite the tax collection process. However, to continue to report under ARTS when we are dependent on state legislation may not be the best reporting mechanism as to progress. The current changes required do not lend themselves to the ARTS reporting.</p> <p><b>Law Response:</b> With the current status of the state legislation, it is not cost effective for the City to initiate collection of outstanding payments due on special assessments. Given the cost of filing and staff time necessary to prepare pleadings and pursue the matter in court, there is no advantage to bring an action for collection on an annual basis. However, as previously recommended, appropriate changes in state law would provide the avenue to focus on failure to pay an annual assessment. One change to state law was proposed by the Finance Department this year but not accepted as a legislative priority. That change would have sought to create a coordinated system of collection of all delinquent taxes and assessments within Jackson, Clay and</p> <p>Platte Counties. The other change to state law would be to designate assessments as personal obligations of the property owner(s) rather than an obligation on the property. If the individual property owner had a liability, pursuit of payment on the obligation would be reconciled with the continuing obligation on the property itself. Absent these changes, individual collection efforts would not be cost effective.</p> <p>It is proposed, however, that Finance and Law continue to monitor delinquent payments to assess the status of delinquencies. There may be rare circumstances under which the delinquent assessment is of such magnitude that there would be a cost benefit to pursuing the collection immediately rather than delaying the prosecution of the claim.</p>	

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## **Appendix C**

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### **Map Development Methodology**



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## Map Development Methodology

The information and map in Exhibit 1 were developed using data provided by Water Services, Information Technology, and City Planning and Development. The unsewered locations on the map are based on residential water accounts without corresponding sewer accounts that are in excess of 200 feet from the nearest sanitary sewer line, for which access would require crossing another owner's property, or where there is no gravity flow to the sewer line.

### Account Data

We asked Water Services to extract data from their account records for water service accounts that did not have corresponding sewer accounts. Water Services staff said they consider sanitary sewers available to a property when sewers are within 200 feet of the structure, access does not cross another owner's property, and there is a gravity flow towards the sewer system.

The Public Works Department had used similar data to develop their long-range plan and estimate the number of unsewered structures in the city.

Information Technology Department staff developed a query to extract water service account records indicating that no sewer was available or that a sewer was available but had not been connected. None of the resulting records were for accounts coded as being connected to sewers and there were no duplicate account numbers.

**Exclusions.** In order to focus on the general concentration of unsewered residential accounts in the city, the following categories of records were excluded from the analysis:

- non-residential account records;
- no-charge account records for the city's Parks and Recreation and Water Services departments;
- records that indicated that a sanitary sewer was accessible but had not been connected to the structure;
- new accounts that were not yet in service; and
- records with metro area zip codes that are not used for Kansas City, Missouri.

The exclusions resulted in a file with 5,810 residential account records.

**Testing.** We extracted a random sample of 15 accounts by zip code and compared the addresses to the Water Services Department's sewer line atlases to test whether the account information provided to us represented unsewered properties and addresses. We estimated the location of the nearest sanitary sewer line using the department's sewer line atlases and print-outs from the city's online neighborhood maps. None of the properties reviewed had sanitary sewer access as defined by Water Services.

### **Map Production**

We provided the records, including addresses and zip codes, to the City Planning and Development Department. We asked that the department develop a map depicting the general concentration of unsewered structures in the city, and that the map show the current City Council district boundaries.

City Planning and Development staff reviewed the data and made format modifications to the addresses to ensure uniformity within the data and create a geocodeable address. Addresses must match the way the map reference file refers to the address. The file of 5,810 addresses produced 5,199 matches or 89.5 percent, which is considered an excellent geocoding match rate. For illustrative purposes, this match rate was adequate; further improvement to the match rate would have required a time-consuming manual operation. City Planning and Development staff then plotted the address matches on a city map. Points that fell outside the city limits were deleted from the map. The resulting map is shown in Exhibit 1.



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## **Appendix D**

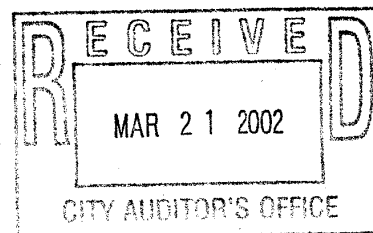
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### **City Manager's Response**





## OFFICE OF THE CITY MANAGER



**DATE:** March 21, 2002

**TO:** Mark Funkhouser, City Auditor

**FROM:** Robert L. Collins, City Manager

**SUBJECT:** Response to Draft Follow-up Audit on Sanitary Sewer Special Assessment Program


In response to your request on the above noted follow-up audit recommendations, please note the following:

2. The City Manager should clarify the sewer special assessment funding agreement between the Public Works and Water Services.

Agree. We will initiate discussions and prepare a written clarification.

4. The City Manager should consider using Community Development Block Grant funds to construct sanitary sewers in areas of the city meeting the Department of Housing and Urban Development's eligibility guidelines.

Agree. The Consolidated Plan identifies key areas of investment for targeted CDBG areas. However due to expanding housing improvement needs and limit CDBG funding were not able to incorporate sanitary sewer funding into the program. See attached memorandum from Stan Barrett, Director of Housing & Community Development.

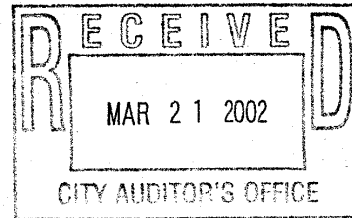
  
Robert L. Collins

RLC:emm  
Attachments

CITY OF FOUNTAINS  
HEART OF THE NATION



KANSAS CITY  
MISSOURI



## Department of Housing and Community Development

**DATE:** March 21, 2002

**TO:** Robert Collins, City Manager

**FROM:** Stanley E. Barrett, Director *Stanley E. Barrett*  
Department of Housing and Community Development

**SUBJECT:** Response to the Recommendation that CDBG Funds be used for Sanitary Sewers

The recent internal recommendations by the City Auditor's Office to use an annual allocation of CDBG funds for the construction of sanitary sewers would greatly impact the City's long-term efforts to address the housing problems in our established neighborhoods. The recently completed 2001 Housing Conditions Survey identified the following conditions on 80,000 residential parcels in an area from Vivion to 85<sup>th</sup>, State Line to I-435 and Ruskin Heights, which is generally the low- moderate income area for CDBG expenditures:

Category	Units in Substandard or Worse Condition	Estimated Cost
Roofs	26,678 Units	\$120,051,000
Foundations & Walls	4,786 Units	\$ 19,144,000
Windows & Doors	8,726 Units	\$ 26,178,000
Porches	12,882 Units	\$ 25,764,000
Exterior Paint	18,605 Units	\$ 55,815,000

The total estimated cost to improve these basic housing components is \$247 million. With an annual CDBG entitlement of only \$12 million it is difficult, if not impossible, to meet the ever expanding housing improvement needs of our low and moderate income neighborhoods.

Page Two

For the reasons pointed out by the recent conditions survey, and the fact that federal funds are currently the only source of funds to assist in making improvements to private homes and toward redeveloping blighted areas, it is crucial that we continue to focus our limited federal funds on private housing and identify other local or state resources for sanitary sewer improvements. Please be advised that CDBG funds have been used for public infrastructure based on the needs of proposed development sites and availability of funds.

SEB/plh



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## **Appendix E**

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### **Director of Public Works' Response**







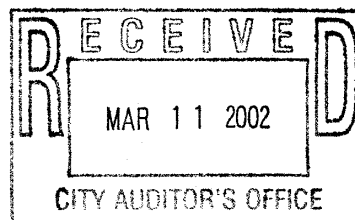
## PUBLIC WORKS DEPARTMENT

**DATE:** March 7, 2002  
**TO:** Mark Funkhouser, City Auditor  
**FROM:** George E. Wolf, Jr., Director of Public Works *BAW*  
**SUBJECT:** Draft Follow-Up Audit on Sanitary Sewer Special Assessment Program

We have reviewed the draft follow-up audit on the Sanitary Sewer Special Assessment Program. We are in complete agreement with recommendation number (3) three of the audit that indicates the Director of Public Works should evaluate and make recommendations to the City Manager to meet the needs for sanitary sewer construction.

If you have any questions, please let me know.

cc: Stan Harris  
Sherri McIntyre  
Jim Merideth





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## **Appendix F**

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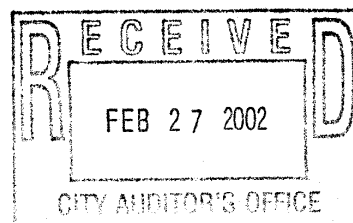
### **Finance Director's Response**





## Interdepartmental Communication

Date: February 22, 2002  
To: Mark Funkhouser, City Auditor  
From: <sup>KR</sup>Kevin Riper, Director of Finance



Subject: Response to Draft Follow-up Audit on Sanitary Sewer Special Assessment Program

In accord with the draft follow-up audit on the Sanitary Sewer Special Assessment Program, the Finance Department was requested to comment on Recommendation # 1, which states:

“The Director of Finance should work with the Director of Information Technology to develop reports that would improve the Finance Department’s ability to monitor and report on sewer special assessment collections and delinquent accounts.”

Agree. The Finance Department will work with the Information Technology Department to implement and revise KIVA special assessment reporting to better monitor sewer special assessment collections, delinquent accounts, and aging accounts.